



# Managing Your Investments

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A City Perspective



# Responsibility for Investments

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- **Governing Body** (Gov't Code Sections 27000.3 and 53600.3) **is responsible**, but may designate authority for a one-year period to a fiduciary.



# Investment Standards

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- All fiduciaries must follow the **Prudent Investor Standard** in that *"a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims..."*



# Investment Limitations

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- Government Code 53600 *et seq*
- Adopted Investment Policy
  - Must conform to State Law
  - May be more restrictive
- Prudent Investor Standards



# Key Provisions of Investments

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- Safe
  - Preservation of Principal
- Liquid
  - Able to meet cash flow needs without requiring a sale of securities
- Reasonable Yield
  - Last consideration, but often the only measurement of investment success



# Investment Approach

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- Perform cash flow analysis
  - one month/six months/one year/etc.
- Determine short-term vs. long-term investment portfolio
- Develop range of investment options for each portfolio type
- Determine ability to pool funds from different sources



# Safe & Liquid Investments

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- Safety and Liquidity are linked
  - Lack of liquidity could lead to early sale of investments and loss of principal
- Legal does not necessarily mean safe
  - Remember the “prudent investor standard”



# Yield

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- Avoid chasing yield
- Disciplined approach
- Benchmark to an appropriate standard to justify disciplined approach
  - Avoid comparing to other jurisdictions
  - Consider index with similar mix of securities and fund duration





# City of Roseville

## Investments Overview



# Fitting it In

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- Finance Director/Treasurer Oversight
  - Investments/Cash Management
  - Accounting and Payroll
  - Budget
  - Special District Administration
  - City/JPA/Special District Debt
  - Utility Billing (four utilities)

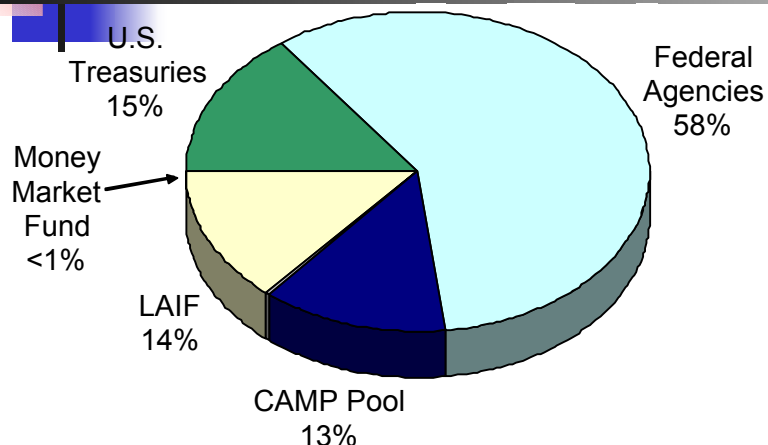


# Total Assets

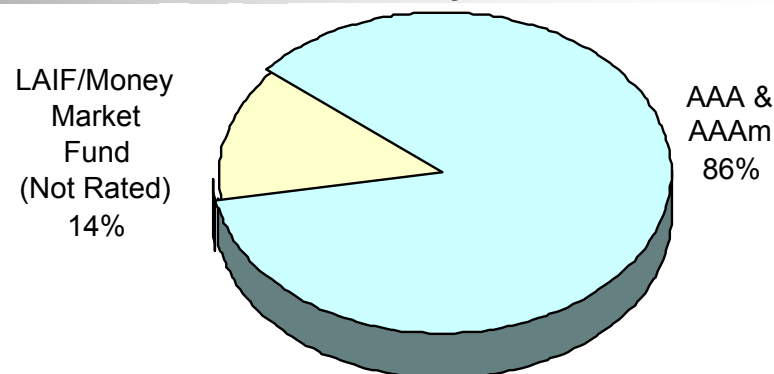
Fund Name		June 30, 2003	March 31, 2003
Pooled Fund Investments	Market Value	\$291,547,519.45	\$241,565,225.14
	Amortized Cost	\$288,692,911.52	\$238,649,837.00
South Placer Water Authority	Market Value	\$52,615,020.90	\$53,406,405.46
	Amortized Cost	\$53,194,741.07	\$53,077,772.78
Electric Rate Stabilization	Market Value	\$41,965,226.37	\$42,010,764.16
	Amortized Cost	\$40,637,079.62	\$40,736,594.49
Citizens Benefit Trust	Market Value	\$15,723,168.98	\$15,762,312.59
	Amortized Cost	\$15,377,251.29	\$15,454,952.06
NC Wetlands Endowment	Market Value	\$328,213.89	\$334,885.77
	Amortized Cost	\$304,300.76	\$308,525.82
Aquatics Complex Maintenance	Market Value	\$608,449.10	\$0.00*
	Amortized Cost	\$600,581.15	\$0.00*
Woodcreek West Endowment	Market Value	\$411,833.23	\$410,187.43
	Amortized Cost	\$398,091.29	\$391,765.15
<b>Total</b>	<b>Market Value</b>	<b>\$403,199,431.92</b>	<b>\$353,489,780.55</b>
	<b>Amortized Cost</b>	<b>\$399,204,956.70</b>	<b>\$348,619,447.30</b>

# Pooled Fund Investments Portfolio Characteristics

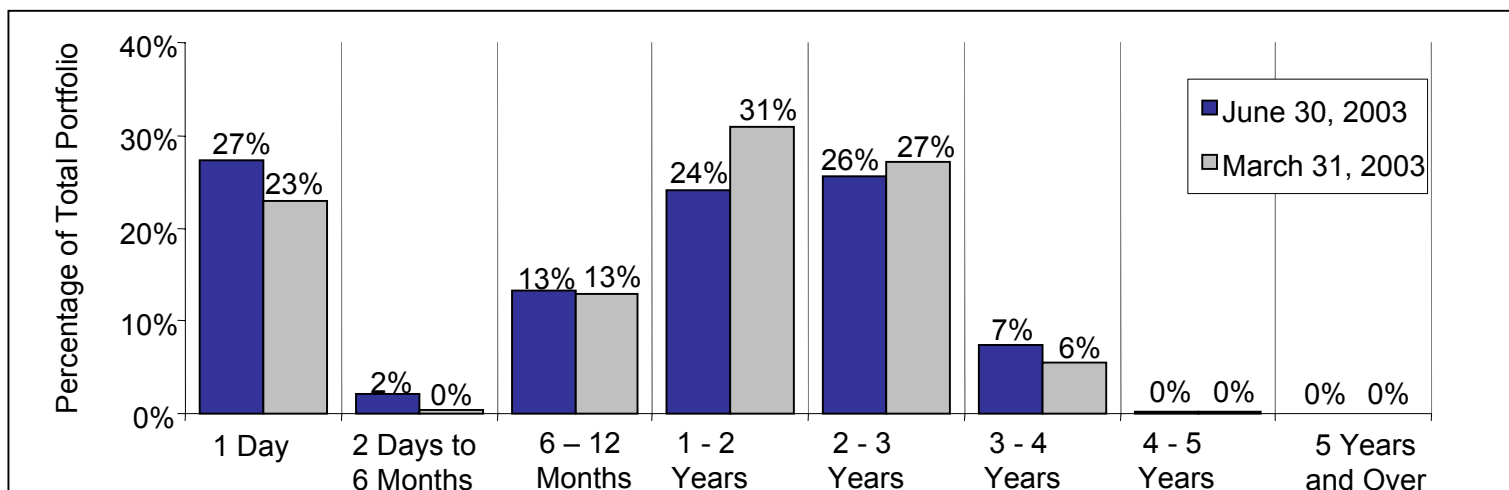
## Sector Distribution



## Credit Quality Distribution

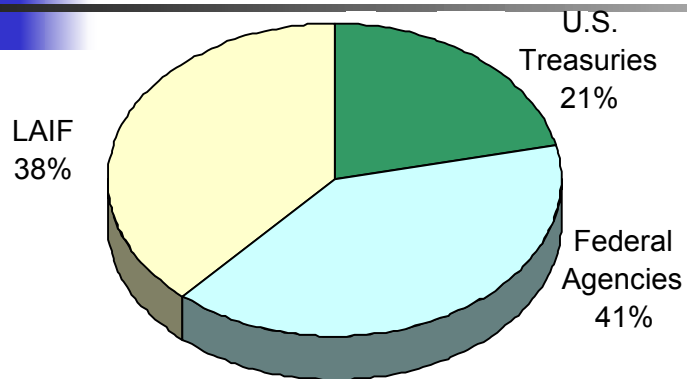


## Maturity Distribution

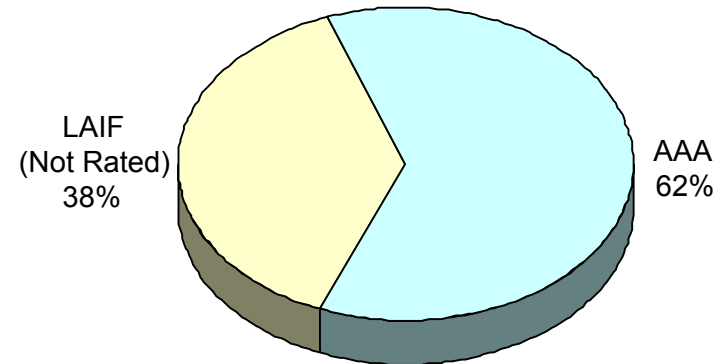


# South Placer Wastewater Portfolio Characteristics

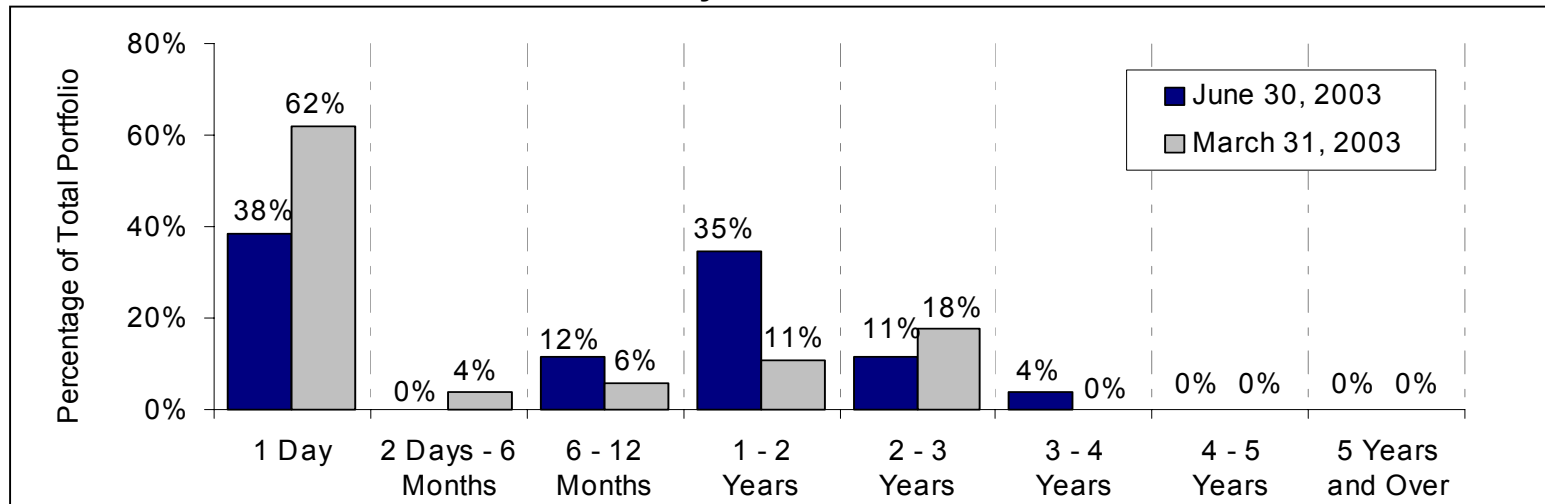
**Sector Distribution**



**Credit Quality Distribution**

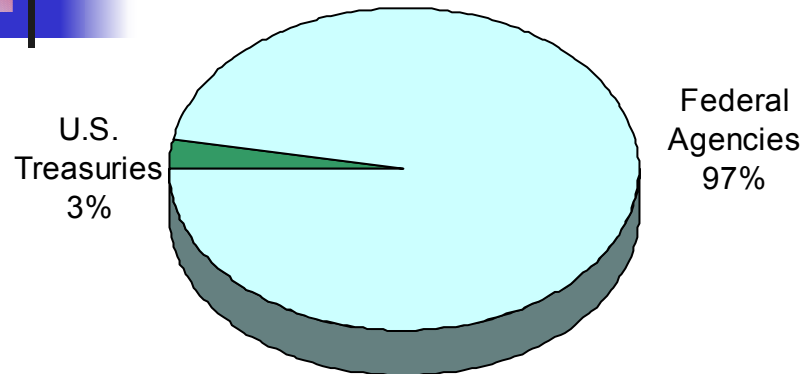


**Maturity Distribution**

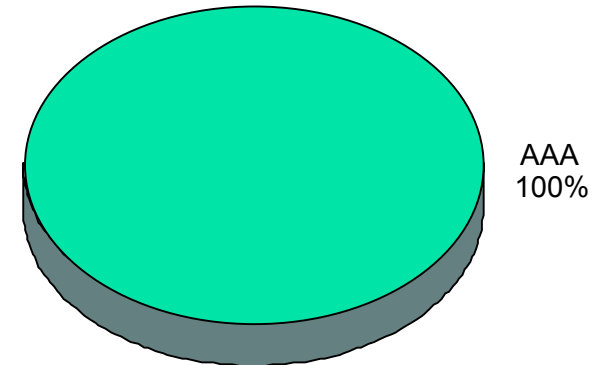


# Electric Rate Stabilization Portfolio Characteristics

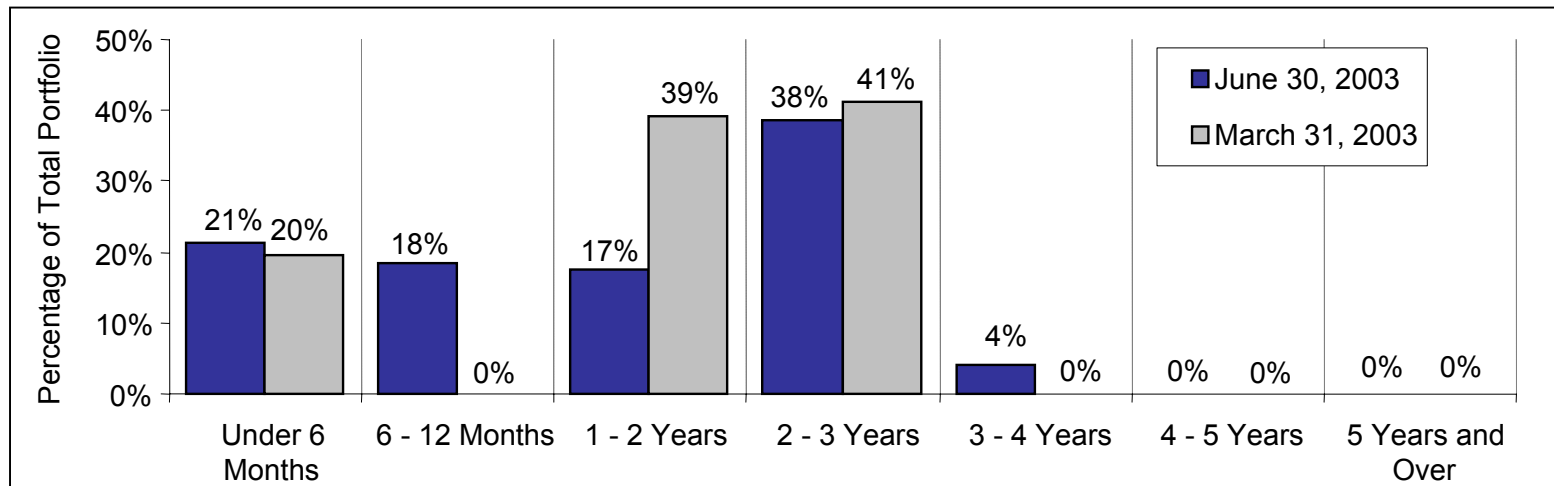
**Sector Distribution**



**Credit Quality Distribution**

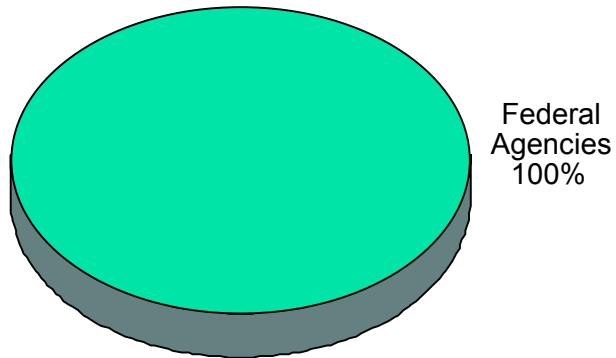


**Maturity Distribution**

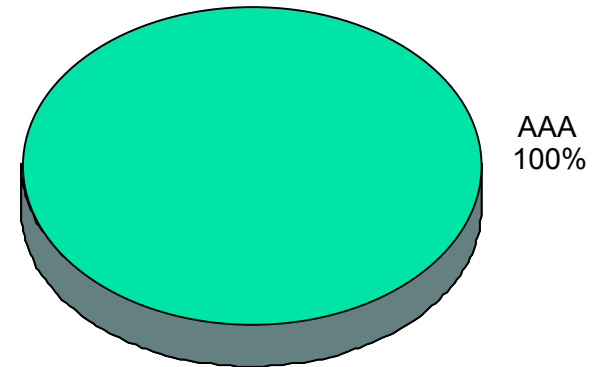


# Citizens Benefit Trust Portfolio Characteristics

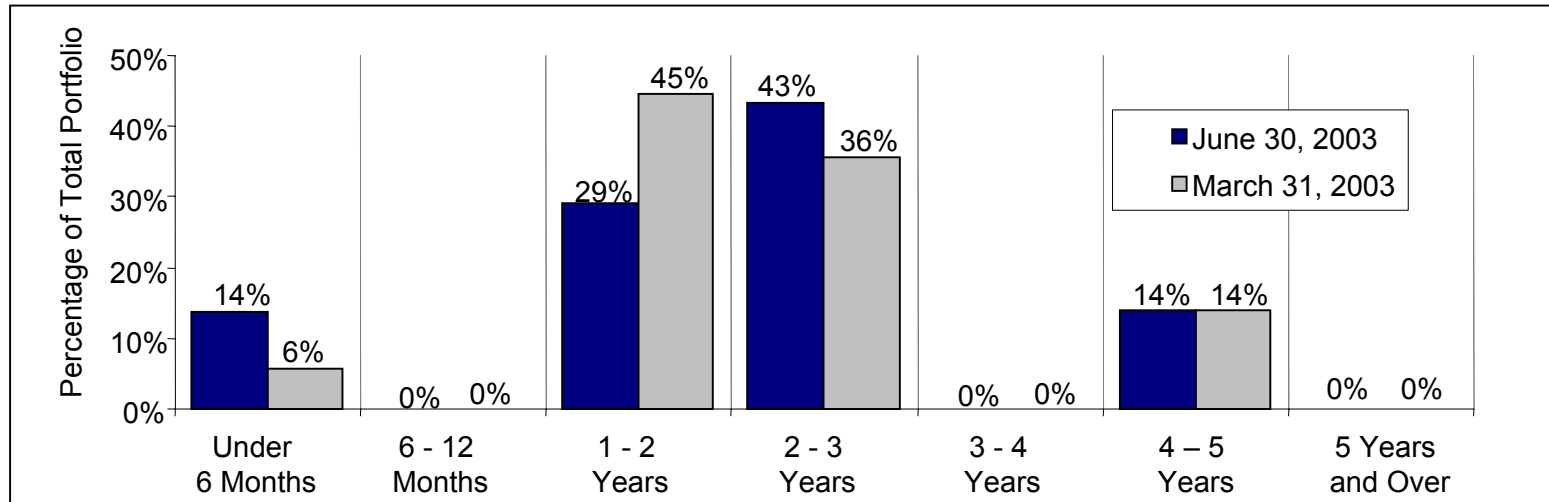
**Sector Distribution**



**Credit Quality Distribution**



**Maturity Distribution**



# Performance

## Total Return

Total Return	Quarter Ended 6/30/03	Annualized Quarter	Past Year	Annualized since 3/31/02
<b>Pooled Investment Fund</b>	0.83%	3.36%	4.68%	6.11%
<b>South Placer Water Authority</b>	0.89%	3.63%	5.25%	-
<b>Electric Rate Stabilization Fund</b>	0.90%	3.65%	5.59%	7.24%
<b>Citizens Benefit Trust Fund</b>	1.06%	4.31%	4.85%	6.39%
<b>Merrill Lynch 1-3 Year UST Index</b>	0.72%	2.91%	4.65%	5.67%

## Duration

Effective Duration	June 30, 2003	March 31, 2003
<b>Pooled Investment Fund</b>	<b>1.23</b>	<b>1.33</b>
<b>South Placer Water Authority</b>	<b>1.28</b>	<b>1.17</b>
<b>Electric Rate Stabilization Fund</b>	<b>1.32</b>	<b>1.45</b>
<b>Citizens Benefit Trust Fund</b>	<b>1.31</b>	<b>1.42</b>
<b>Merrill Lynch 1-3 Year UST Index</b>	<b>1.61</b>	<b>1.55</b>

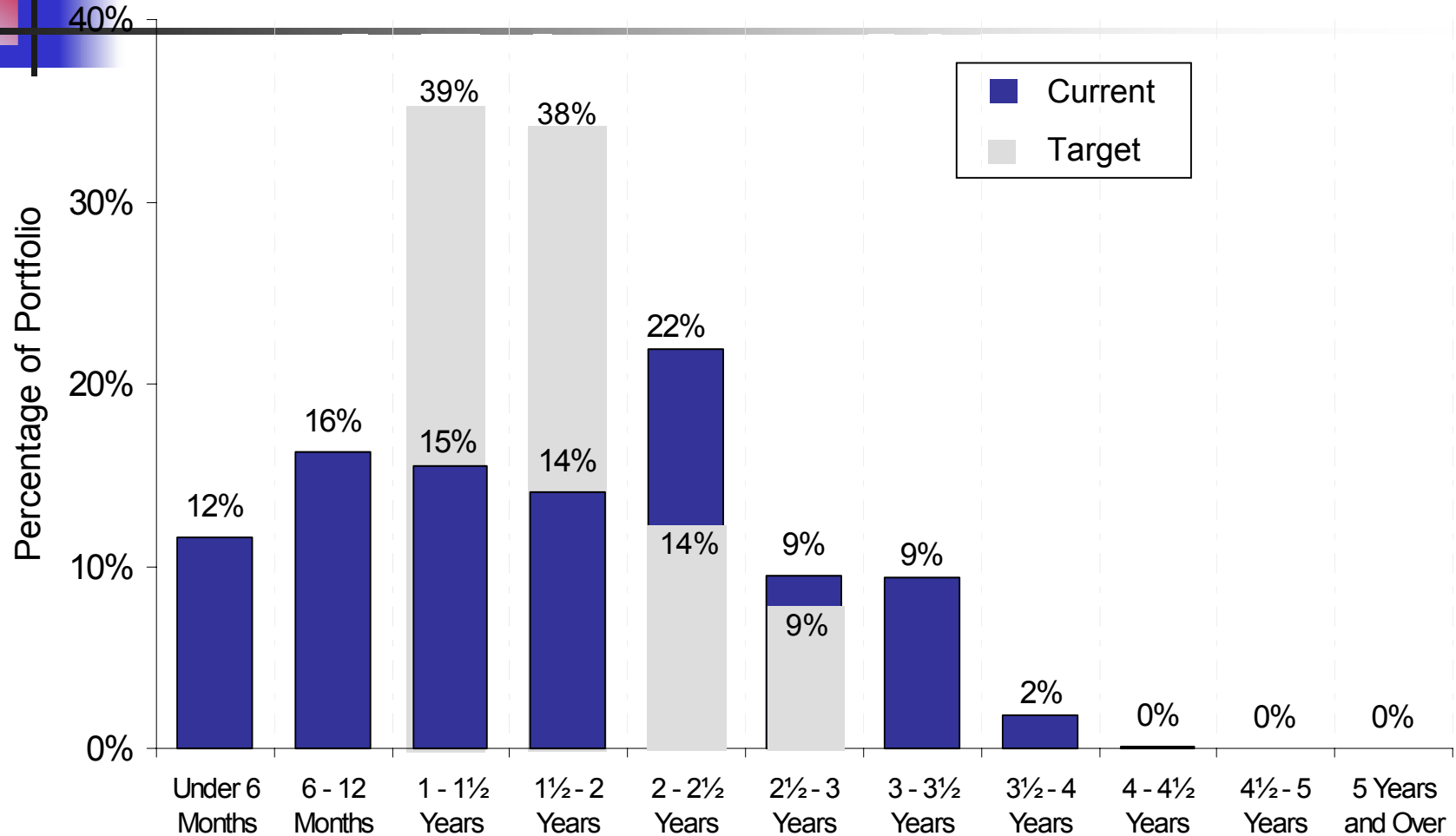
### Notes:

1. Performance on settlement-date basis, gross (i.e., before fees) in accordance with standards of the Association for Investment Management and Research.
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Performance numbers for periods greater than one year are presented on an annualized basis.
4. Excludes LAIF in performance calculations. Excludes LAIF and CAMP Pool in duration computations.
5. Returns are presented on both an unannualized and annualized basis. Annualized return assumes the quarterly return is compounded for four quarters. The actual annual return will vary based on actual quarterly returns.



# Pooled Fund Investments Portfolio

## Target vs. Current Maturity Distribution





# Portfolio Yields

Yield on Cost

Fund Name	June 30, 2003	March 31, 2003
Pooled Fund Investments	2.72%	3.07%
Citizens Benefit Trust	3.11%	3.23%
Electric Rate Stabilization	3.21%	3.21%
NC Wetlands Endowment	7.05%	7.05%
Aquatics Complex Maintenance	2.04%	-
Woodcreek West Endowment	6.50%	6.50%
South Placer Water Authority	2.54%	2.84%
Average Yield	2.77%	3.07%



# Critical Issues

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- Fund Management
- Risk Management
- Ethics
- Politics



# Fund Management

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- Paid staff vs. Investment Advisor
- Mix of short-term to longer-term
- Mix of investment types
- Where do you put your liquid funds?
- How liquid do you need your liquid funds to be?



# Identify & Manage Risk

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- Political Risk
- Credit Risk
  - Securities, dealers, banks
- Liquidity Risk
  - Ability to sell quickly, spread difficulties
- Market Risk
  - Loss of value, mark-to-market, maturity control
- Volatility Risk
- Rate changes Re-Investment Risk
- Event Risk
  - Credit or industry changes
  - Callables

# Reporting

## Methods

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- Quarterly
- Security listings
- Gains and losses and investment earnings
- Average weighted yield to maturity
- Maturity listing
- Asset allocation by percentage

## ■ Performance Standards

- Treasury index
- Lehman Government Bond index
- LAIF
- Combination



# Ethics

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- Need for Transparency
- Dealing with Broker/Dealers
  - Level of professional ethics
  - Amount of experience with local agencies
  - Gifts and gratuities
- Making Proper Investments
  - Making investments for wrong reasons
  - Not following investment policies



# Political Issues

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- Pressure to use “friends” for investments
  - Stick to investment policy
  - Have an approved list of brokers/dealers
  - Have an investment plan in place
  - Use competition to evaluate any purchase





# Special Considerations

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- General Fund/Enterprise Funds
  - Liquidity Needs
  - Preservation of Principal
- Development Impact Fees
- Bond Funds
  - Proceeds vs. Reserves
  - Alternative Investments (e.g. GICs)
- Hedging (e.g., interest-rate swaps)